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On Behalf of

Women Impacting Public Policy

Submitted to

U.S. House of Representatives Financial Services Committee Subcommittee on Oversight and Investigations

"GAO Report on Regulation B: Should Lenders Be Required to Collect Race and Gender Data of Borrowers for All Loans"

July 17, 2008

Chairman Watt and Members of the Subcommittee, thank you for inviting me to testify on access to capital issues that women business owners face. I am here today representing Women Impacting Public Policy (WIPP), a bipartisan organization that represents well over half a million women and minority business owners. WIPP represents both individual women business owners and a coalition of 45 small business organizations. I serve as WIPP's government relations advocate in Washington.

I would like to address two issues today – one, the hurdles women-owned businesses face with respect to access to capital and two, the need for additional data relevant to small women-owned businesses. Let me just say at the outset that it was only 34 years ago, with the passage of the Equal Credit Opportunity Act, that women were able to obtain their own credit in their own name. In 1988, landmark legislation, H.R. 5050, built upon that progress by making business loans subject to the Equal Credit Opportunity Act. This had a tremendous effect on the growth of women-owned businesses, which now total 10.6 million. The Bureau of the Census began counting women-owned businesses in 1972 as a pilot program. The program originally only counted sole proprietorships owned by women. More than a decade later, H.R. 5050 expanded the Census data collection to include counting "C" Corporations owned by women, which meant that the Census began counting women-owned businesses with a more significant revenue stream. This year, the women's business community is celebrating the 20 year passage of H.R. 5050 around the country. Everywhere we go, women business owners attest to the struggles of securing capital and describe stories of difficulty both then and now.

Every year WIPP conducts an annual survey of its membership. In the 2008 Survey, we found that women are using more sources of capital than in the previous 2007 survey and 60% of women business owners continue to seek outside funding for their businesses. Sixty-six percent of the respondents use bank financing backed by home equity loans or other collateralized loans; 49% use credit card financing; 36% get their funding from family and friends; 22% use SBA loans; 10% utilize angel investors and 5% use SBA Microloans. In addition, 63% of those surveyed believe Congress should provide tax incentives to stimulate angel investment in small businesses. Access to capital continues to be a high policy priority for WIPP and the organizations that work with us.

The good news from WIPP's annual survey is that women appear to be making gains in obtaining capital to grow their businesses. But the struggle continues for many women and minority-owned small companies to obtain the growth capital they need. We hear from our members that, although they are able to access capital, their struggle is in securing favorable terms that make business sense. So, if discrimination exists, it is not as blatant as approval or denial, rather it is in the terms offered.

While the problems I am going to mention may not be limited to women-owned businesses only, and may be shared by all small businesses, let me give some examples of issues our members face when trying to secure capital. For early stage businesses, the collateral requirements are high. Unless you have personal property to pledge against the loan, it is very likely that you will not be able to secure financing. Even for more established businesses that are "C" Corporations, banks still require pledges of personal property as collateral. Second, banks will not accept a signed government contract as collateral, which is often the most secure stream of funding the small business has to offer. Third, with regard to the construction business, government agencies can prohibit small businesses from bidding by setting the bonding requirements artificially high. The small business cannot obtain the level of bonding required, so they cannot bid--an easy way to keep small businesses out. Fourth, the ownership terms for venture funding often prohibit women-owned businesses from using that avenue for funding. In the words of one WIPP member who has been exploring venture capital, "getting venture capital is really just selling your business cheaply." Fifth, SBA loan fees have now become a real factor in whether or not our members choose to use them.

With regard to SBA loans, 40% of all long term capital for small businesses is provided through the SBA loan programs. I believe some important changes have taken place in the last four years which have been detrimental to the SBA lending programs. In 2004, Congress stopped subsidizing the rate for small business loans and lowered the guarantee. This resulted in an increase of lender and oversight fees. Those increased fees are, of course, passed onto the borrower. According to the fee information published by the SBA, a $1,000,000 7(a) loan would be charged a 3.5% guaranty, which is charged to the borrower. So for example, the fee on this loan is $35,000. With the combination of high fees and more conservative lending by the banks, it is no wonder that SBA lending is down. The House FY09 Financial Services Appropriations bill included $100 million to subsidize the 7(a) loan guarantee program and reduce lender fees. Unfortunately, this was not included in the Senate's version of the bill. We urge the House to insist on its position with regard to this provision.

The topic of discussion in this hearing is whether lenders should be required to collect race and gender data of borrowers for small business lending. Let me just note, the SBA certainly tracks all of its lending. The lending data is broken down by African American, Hispanic, Asian, Native American, Other Minorities and Women. For example, the number of loans to women in the 7(a) loan program increased by 2% from FY01-FY07. The number of 504 loans given to women decreased 2% since 2001 and Microloans to women dropped from $11 million in FY01 to $9.6 in FY07.

It is our experience that collection of this data is very valuable for policymakers, the SBA and small business groups, such as WIPP, who track lending to their segment of the industry. If the SBA can track its loans, even though they are not direct lenders, it does not seem out of the realm of possibilities that this data could be collected in the same manner and shared with regulators. We recommend this Committee take a look at how SBA collects its data, and perhaps use this as a model for possible expansion of data collection for small business loans.

The data on women-owned businesses and small businesses, in general, is hardly robust. Very few sources of data exist. The U.S. Census Bureau's Statistics of U.S. Businesses produces data by NAICS codes. Every five years, the U.S. Census Bureau conducts an economic census. Typically, the data lags three years behind. The Bureau of Labor Statistics produces employment statistics by firm size. However, studies on small business lending are very limited. The Federal Reserve produces its Survey of Small Business finances (SSBF) every five years. This survey is important to the women's business community and use the SSBF for much of its economic data. The National Women's Business Council, the Center for Women's Business Research, and the SBA Office of Advocacy all use the SSBF for analyses of the state of small, minority and women-owned business financing. WIPP has expressed the importance of this survey to the Federal Reserve Board and hopes this survey will continue to be conducted.

With regard to whether or not the data should be mandated, we do not feel qualified to comment but encourage the Committee to seek the most reliable method of data collection. With increased data collection, privacy issues should always be considered. If Regulation B was amended to track minority and women lending, we would request assurances that this additional data collection include safeguards to protect the data from unlawful usage.

In summary, the GAO was not really able to ascertain whether or not women-owned businesses faced higher credit denial rates than white male businesses. From the many stories we hear across the country, we know that women still face difficulties in obtaining growth capital for their businesses. We believe that increased information on lending could be a valuable tool to identify potential barriers to obtain that capital.

Thank you for giving me the opportunity to testify. I am happy to answer any questions.